

Message Text

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ACTION EUR-12

INFO OCT-01 EA-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08
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LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07 CEA-01
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R 101846Z JUL 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC 0073
DEPARTMENT TREASURY
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL FRANKFURT

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USEEC AND USOECD ALSO FOR EMBASSIES

DEPARTMENT PASS FEDERAL RESERVE

E.O. 11652: N/A
TAGS: ECON EFIN GW
SUBJECT: GERMAN COMMENT ON MONETARY SYSTEM
FOLLOWING BREMEN SUMMIT

1. SUMMARY -- PLANS FOR INCREASED MONETARY COOPERATION
IN EUROPE, WHICH WERE REVEALED AT THE BREMEN SUMMIT HAVE
STIMULATED CONSIDERABLE COMMENT IN THE FRG. ALL MAJOR
NEWSPAPERS DEVOTED CONSIDERABLE SPACE TO THIS ISSUE IN
WEEKEND AND MONDAY'S PAPERS. EDITORIAL COMMENT CENTERED
BY AND LARGE ON THE POTENTIALLY NEGATIVE ASPECTS THE
INSTITUTION OF THE PLAN WOULD HAVE ON THE GERMAN ECONOMY,
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E.G., INFLATION. POLITICIANS SEEM DIVIDED ALONG PARTY LINES AS
TO THE MERITS OF THE PLAN WITH CSU LEADER STRAUSS AS THE
LEADING OPPONENT. END SUMMARY.

2. AN EDITORIAL IN MONDAY'S HANDELSBLATT STATED THAT
SCHMIDT HAD GIVEN THE IMPRESSION THAT THE EC MONETARY
SYSTEM WOULD BE SOMETHING QUITE NEW. HOWEVER, WHEN

PRESENTED THE MODEL FAILED TO MEET THESE EXPECTATIONS. NO NEW BASIC IDEAS HAVE BEEN CREATED, RATHER "AN OLD WORN OUT DRESS HAS BEEN IRONED AGAIN". IN HANDELSBLATT'S VIEW, IN THE NEW SYSTEM THE VALUE OF THE DEUTSCHEMARK WILL RISE AND THE WEAKER CURRENCIES WILL DECLINE, MEANING THAT BILLIONS OF DM WILL HAVE TO BE SUPPLIED AND SACRIFICED IN ORDER TO MAINTAIN THE SYSTEM. THIS WOULD RESULT IN GERMAN INFLATION, A PRICE WHICH IN THE PAPER'S VIEW, IS UNACCEPTABLE. ALSO, SINCE THE DEUTSCHEMARK WOULD BECOME THE MAIN INTERVENTION CURRENCY, MAINTAINING AN ORDERLY BUNDESBANK MONETARY POLICY WOULD BECOME SUBSTANTIALLY MORE DIFFICULT, IF NOT IMPOSSIBLE. THUS, IN HANDELSBLATT VIEW, BUNDESBANK OPPOSITION IS UNDERSTANDABLE.

ACCORDING TO HANDELSBLATT, THE FRENCH NATURALLY VIEW THE NEW SYSTEM WITH SYMPATHY, PARTICULARLY SINCE IT PROVIDES THE FRENCH FRANC WITH WIDER EXCHANGE RATE MARGINS IN THE INTERIM PHASE AND MAKES THE FRENCH "STOCKHOLDERS" OF A PART OF THE "JEALOUSLY AND HUNGRILY WATCHED" GERMAN MONETARY RESERVES. THE HANDELSBLATT WRITES THAT THE BRITISH AND ITALIANS, ON THE OTHER HAND, ARE NOT HAPPY WITH THE IDEA OF TYING THEIR CURRENCIES TO THE STRONG DEUTSCHEMARK, BUT MADE A POLITE DECLARATION OF INTENT SINCE IT COST THEM NOTHING. SCHMIDT WILL VERY PROBABLY VAINLY WAIT FOR

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THEIR FINAL ENTRY.

HANDELSBLATT ALSO IS OF THE VIEW THAT THE IMF, BECAUSE OF LARGE BALANCE OF PAYMENTS DISEQUILIBRIA AND SUBSTANTIAL INFLATION DIFFERENTIALS, HAS BECOME SIMPLY A CREDIT MECHANISM AND A MAJOR SOURCE OF "OVERFLOWING" INTERNATIONAL LIQUIDITY. THE HANDELSBLATT FEELS THAT THE NEW EC MONETARY MODEL WILL BECOME MUCH THE SAME TYPE OF INSTRUMENT, AND THE RESULTING CREATION OF FUNDS WILL NOT CONTRIBUTE TO COORDINATION BUT RATHER TO INSTABILITY.

WITH REGARD TO SCHMIDT'S STATEMENT THAT PRESIDENT CARTER HAD GIVEN HIS BLESSING TO THE NEW MONETARY SYSTEM HANDELSBLATT SAID THAT IT WILL BE SEEN WHAT FINALLY REMAINS OF THE PRESIDENT'S AGREEMENT ONCE EC FINANCE MINISTERS HAVE ELABORATED THE NEW PLAN AND THE

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EC COUNCIL HAS DECIDED ON IT IN DECEMBER.

3. DIE WELT HIGHLIGHTED THE MONETARY ASPECTS OF THE BREMEN MEETING AND SAID THAT THE MOST IMPORTANT OUTCOME WAS THE STATEMENT OF INTENT TO CREATE A ZONE OF STABLE CURRENCIES. HOWEVER, DIE WELT WAS SKEPTICAL IN LIGHT OF BRITISH AND ITALIAN RELUCTANCE OF WHETHER THE PLAN WOULD BE IMPLEMENTED. IN ADDITION, THE ARTICLE COMMENTED ON THE INCREASED DANGER TO GERMAN PRICE STABILITY OF SUCH A MOVE.

4. THE MOST RECENT EDITION OF DER SPIEGEL ALSO CARRIES AN ARTICLE ON THE MONETARY ASPECTS OF THE BREMEN SUMMIT. SPIEGEL WRITES THAT THE FORMAT PRESENTED IN

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BREMEN REPRESENTS A RETURN TO OLDER TIMES AND AN ABRUPT DEPARTURE FROM CHANCELLOR SCHMIDT'S PREVIOUS EFFORTS

IN THE MONETARY FIELD. SPIEGEL NOTES THAT THE PLAN FORWARDED BY SCHMIDT WAS FORMULATED WITHOUT CONSULTING WITH RESPONSIBLE SECTIONS IN THE FINANCE MINISTRY AND SAYS THAT THE CHANCELLOR WAS MOTIVATED TO DEVELOP A SYSTEM FOR A ZONE OF EXCHANGE RATE STABILITY AS A DEMONSTRATION AGAINST THE U.S. BECAUSE OF WASHINGTON'S MESSY ECONOMIC POLICY WHICH PERMITTED THE DECLINE OF THE DOLLAR. SPIEGEL IS SKEPTICAL OF THE VALUE OF THE PLAN INsofar AS IT WILL AFFECT GERMAN STABILITY. THE RESULT, ACCORDING TO SPIEGEL, WILL BE TO INCREASE GERMANY'S ROLE AS EUROPE'S PAYMASTER, AND COMMITMENT OF THE BUNDESBANK'S RESERVES TO SUPPORT THE CURRENCIES OF ITS NEIGHBORS. STILL WORSE, WRITES SPIEGEL, INFLATION RATES WILL TEND TOWARDS THE HIGHEST COMMON DENOMINATOR OF THE MEMBERS. IN SUMMATION, SPIEGEL NOTED THE BRITISH COOLNESS TO MONETARY UNION AT THE PRESENT TIME AND FINISHED WITH THE REMARK THAT THE PLAN SHOWS SIGNS OF BEING A PAPER TIGER.

5. ASSESSMENT OF THE MONETARY PLAN BY GERMAN POLITICIANS DIFFERED GREATLY, PRIMARILY ALONG PARTY LINE. CSU LEADER, STRAUSS, WAS HIGHLY CRITICAL, CLAIMING THAT MONETARY UNION WOULD BE INJURIOUS TO BASIC GERMAN INTERESTS IF PRIOR TO ITS INSTITUTION HARMONIZATION OF ECONOMIC POLICIES HAD NOT BEEN ACHIEVED. IN STRAUSS' OPINION, THE GREATEST DANGER WAS A RESUMPTION OF AN INFLATIONARY SPIRAL. SEVERAL SPD AND FDP SPOKESMEN ON THE OTHER HAND HAILED THE DECISION AT BREMEN AS AN IMPORTANT AND NECESSARY FORWARD MOVEMENT TOWARDS EUROPEAN INTEGRATION.

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6. REACTIONS FROM OTHER QUARTERS INCLUDED THE ASSOCIATION FOR THE PROTECTION OF GERMAN SAVERS WHICH WAS REPORTED TO HAVE REACTED QUITE NEGATIVELY TO THE MONETARY DECISIONS ALTHOUGH THE REASONS WERE NOT ELABORATED. ALSO, THE PRESIDENT OF THE ASSOCIATION OF GERMAN INDUSTRY, FASOLT, CONSIDERED THE BREMEN DECISION TO BE "AN IMPORTANT STEP IN THE RIGHT DIRECTION". AT THE SAME TIME, HOWEVER, HE EXPRESSED "JUSTIFIED SKEPTICISM" BECAUSE WITHOUT HARMONIZATION IN EUROPE THE INTENDED OBJECTIVE WOULD HARDLY BE ACHIEVED. STOESEL

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